

**CONG. MAXINE WATERS KEYNOTE SPEECH
AT THE LAUNCH OF THE “GLOBAL FINANCIAL GOVERNANCE AND IMPACT
REPORT” BY THE NEW RULES FOR GLOBAL FINANCE COALITION**

Friday, October 11, 2013

INTRODUCTION

I'm very honored to be invited here today by the New Rules for Global Finance coalition to talk about governance of the international economy and the role of the world's major economic institutions in helping to shape and manage the global financial system.

First, I'd like to say that I very much welcome this report by the New Rules coalition and the contribution it makes in calling attention to one of the most challenging issues we face today -- how do we manage the global economy and how do we make our existing international institutions more effective in helping to preserve global stability and promote sustainable growth in a way that is broadly shared?

In a world of sovereign states, the underlying challenge to effective global economic governance originates from the absence of a single global entity responsible for overseeing the system and establishing the rules necessary for its operation.

The core infrastructure of the global economy will need to be based – in my view – on effective national rules coupled with increased international cooperation among nations, both through informal channels and through established multilateral institutions.

GLOBAL ECONOMIC INSTITUTIONS

Given the importance of our global economic institutions in these efforts -- and the fact that these institutions have no system of direct democratic accountability -- it is all the more important that there be confidence in their governance – and that they be transparent and accountable.

Particular attention should be paid to the effectiveness of their policies and the impact they have on developing countries.

Any examination of these institutions should first acknowledge how much progress they've made in many areas over the past 20 years – in large part due to pressure from civil society and individual governments. This is particularly the case with regard to the Bretton Woods institutions. Whatever deficiencies people might identify or perceive, one thing the international financial institutions cannot be accused of is being indifferent to pressure or impervious to change.

Having said that, I believe the first set of governance reforms we need at the Bretton Woods institutions is a more effective voice for developing countries. These countries now represent a much larger proportion of world economic activity than when the World Bank and the IMF were created in 1944.

Voice and representation reforms are imperative in order to re-establish the credibility of the Bank and the Fund as truly international institutions contributing to growth with equity and stability for all countries.

WORLD BANK

I believe it is very much in our interest that the World Bank – as the world’s premier development institution – remains strong, credible and effective.

One of the important contributions the Bank has made to the vitality of development efforts is its emphasis on good governance – its commitment to democratic values and inclusive, participatory decision-making.

Inspection Panel

In fact, twenty years ago the Bank became the standard-bearer for democratic accountability at the multilateral development institutions by establishing the Inspection Panel. This marked a very important advance in the governance of international institutions.

By creating an independent forum through which ordinary citizens who felt disadvantaged by Bank projects could submit their complaints and see them addressed – the Bank gave voice and standing to affected people. For the first time, an international organization provided a means through which individual citizens could hold the Bank accountable to its own standards.

Today, the Inspection Panel continues to contribute in important ways to project quality and improved development outcomes.

Racial Discrimination

But the World Bank can only be effective in conveying a message of good governance if it is seen as having good governance itself. There must be a belief that its own governance conforms to the standards that it demands of others – including standards relating to the choice of personnel and due process.

One of the Bank’s most important assets is its human capital. It has created one of the most talented and qualified bureaucracies around the world. But the Bank has some serious work to do to ensure that its processes for hiring, retaining and promoting staff are free from discrimination. It must also ensure that staff access to a justice system that they can trust will be fair and impartial. This is an issue that I will continue to follow very closely.

Doing Business Report

Another area where I’m optimistic we’ll see permanent change is in the World Bank’s annual “Doing Business” report, which ranks countries according to their attractiveness to business.

Several years ago, the Financial Services Committee learned that the “Doing Business” report included a labor index – the “Employing Workers Indicator” – which downgraded countries in the rankings for any and all labor protections. This included factors such as having a minimum wage, maximum working hours, vacation days, or maternity leave. It was clear this had to change.

Another area of concern in the Report was its “Paying Taxes” indicator – which gave countries a higher rating based on how close to zero their corporate tax rates were. In effect, this meant that the World Bank’s guidance to developing countries was to gut labor protections and shift the funding of all government functions to workers and households. Of course, this would make it more difficult to fund social safety net programs, build a middle class, or empower workers. This was odd advice for an organization supposedly devoted to ending poverty.

International labor groups such as the AFL-CIO, the International Trade Union Confederation, and the ILO all tried in vain to convince, shame, or bully the World Bank into eliminating the “Employing Workers” index.

After our Committee held a hearing on the subject several years ago, we made it clear to the World Bank that its funding could be very, very slow in moving forward through the committee until this problem was resolved. The outcome was that in 2009, the World Bank suspended the “Employing Workers Indicator” from the “Doing Business” rankings – and it created a working group to develop a new indicator to measure countries’ adherence to core labor standards.

I’m confident that the anti-worker aspects of the Report will soon be permanently abolished altogether. Not doing so would greatly undermine the Bank’s legitimacy and its relevance in the fight against global poverty.

INTERNATIONAL MONETARY FUND

With regard to the IMF, I first want to thank Ms. LaGarde for her willingness to engage with me directly on issues that have been of particular importance to me. And I want to commend her leadership in focusing as much time and energy as she did on the country of Jamaica when the world was otherwise so focused on the turmoil in Europe.

I believe the IMF has a very legitimate and indispensable function in the global economy – in monitoring the world’s economies and responding to countries facing balance-of-payment crises.

One mark of the vitality of an institution, in my view, is its ability to admit when it was wrong, to say that it had misjudged some things and made mistakes. The IMF has done that, and I think that adds to its legitimacy. For example, after the East Asian financial crisis in the late ‘90s, the IMF admitted that it was wrong in imposing too much austerity, which exacerbated debt crises.

Over the past decade, the IMF has tried to pay more attention to the social aspects of its programs, including by protecting social safety nets and vulnerable parts of society.

Last December, the IMF marked an end in the era of finance by reversing its long-held opposition to capital controls. The Fund announced a new official institutional view acknowledging that controls on volatile flows of capital around the globe can play an important role in helping to preserve the stability of the international financial system.

Moreover, when Congress authorized an IMF quota increase in 2009, which included a limited amount of gold sales, the IMF agreed to use a portion of the proceeds to help the poorest countries. This included the elimination of interest payments on its loans to the poorest countries for five years.

LABOR MARKET ISSUES AT THE IMF

However, there are areas where I believe the IMF needs to do a better job. First, it's clear that the Fund doesn't always strike the right balance between austerity and growth, which has had some very negative consequences. Second, I believe the IMF should stick to what it knows best: macroeconomic issues that bear most directly on balance-of-payment questions. For example, it's difficult to understand why monetary economists at the IMF should intervene in a country's labor market policies, particularly when they encourage labor market flexibility measures. Labor market flexibility is nothing more than a euphemism for measures that make it easier for firms to fire workers and dilute the power of unions to negotiate on behalf of workers. I understand that the IMF has recently recommended a number of these policies in Europe and elsewhere. The IMF should not be re-writing the social compact in countries that recasts the balance of power between labor and capital.

GLOBAL SOVERIGN DEBT RESTRUCTURING MECHANISM

On a positive note, I'd like to add my very strong support for recent work at the IMF, and elsewhere, to study and encourage a more efficient approach to sovereign debt restructuring.

The issue of sovereign debt is back at the center of economic policy debate. This is a result not only of the global crisis, but also because of recent court rulings that would give greater leverage to vulture funds, which could undermine future debt restructuring efforts.

I favor an approach that would establish a formal, institutionalized, and politically recognized procedure for restructuring the debt of bankrupt sovereigns. It would extend legal protections to both the sovereigns and creditors involved.

Under certain conditions, an international sovereign debt restructuring mechanism could allow for the orderly and swift resolution of debt crises in ways that would not only make crises less costly but would also encourage sovereign debtors and creditors to act more responsibly in normal times.

There are a couple of principles that I think should underlie such a mechanism. For example, odious debt should be written off. This would include, for example, the kind of debt the Congo had as a result of Mobutu borrowing, or Ethiopia, which was given loans that paid for arms that went to Mengistu. Also, when loans were made with advice from international lenders -- advice that was wrong and led to projects that were poorly designed -- the lenders should bear some of the risk for bad lending.

In any event, the recent court rulings allowing vulture funds to interfere with Argentina's ability to make payments to creditors that had accepted a debt restructuring have caused widespread concern. Both the World Bank and the IMF have noted that this will encourage holdouts and discourage creditor participation in future sovereign debt work-outs, which could pose a very real threat to global financial stability.

THE PROBLEM OF GROWING INEQUALITY

This brings me to what I think is one of the central problems with the way we have approached international economic policy, through our trade agreements and through the policies of the international financial institutions.

I believe our international economic policy has been too one-sided – too focused on elevating the interests and mobility of capital over all other considerations. This was based on the misguided belief that unfettered markets would not only create wealth and stability, but would also solve almost all social problems through a trickle down of benefits to others in society.

But this isn't what has happened.

Over the past 30 years, we have seen a growing increase in inequality in the U.S. and in other advanced and some emerging market countries. This was the case even during periods of sustained growth. In fact, today the United States has the highest level of inequality of any advanced industrial country.

Although some degree of inequality is necessary for the function of a market economy, since it creates incentives to work hard and take risks, here in America and elsewhere, we have more much more inequality than is necessary for efficiency.

Left entirely to its own, the market system will produce more inequality than is economically necessary. And excessive inequality not only undermines social and political cohesion, it has also been shown to have negative effects on growth.

World Bank research has shown that growth alone is not sufficient in reducing poverty. You also have to pay attention to how the benefits of growth are distributed, so that its benefits are broadly shared. Recent research at the IMF has shown that inequality can also undermine growth, because it weakens demand and depresses consumption.

Now, I believe in capitalism. I recognize the power of capitalism to create wealth, and I believe markets are the main engines of wealth creation in our country and elsewhere.

But in order to be truly supportive of the free market, I believe you must also be supportive of government. This is because we need to have an appropriate set of public policies in place to reign in the excesses of the market, to help maintain stability, and to ensure that the benefits of capitalism are broadly shared.

In fact, one of the most important lessons we have learned from the recent financial crisis is that markets must be deeply embedded in systems of governance. The idea that markets are self-correcting has received a mortal blow. Markets require other social and public institutions to support them. They rely on courts, legal frameworks, and regulators to set and enforce rules. They depend on the stabilizing functions that central banks and countercyclical fiscal policy provide. They also need the political buy-in that redistributive taxation, safety nets, and social insurance help generate.

And all of this is true of global markets as well.

What I'm saying is this: free markets and government are not opposites, they are complements. And if you don't want to believe me about the importance of government to the free market system – well, maybe you will believe the markets.

In Congress, one of the biggest supporters of the IMF and the World Bank has been the US Chamber of Commerce. They understand the need for effective public intervention when countries are facing an economic crisis. Business has also been the biggest supporter of the U.S. Export-Import Bank, another government function. Finally, last week, after the Republicans shut the government down, business deployed an army of lobbyist to Capitol Hill to stress the importance of getting the government back up and running again.

IN CLOSING

As I conclude my remarks, it occurs to me that perhaps this might not have been the most appropriate audience to hear my views on the importance of governance and the necessary and mutually reinforcing roles of government and markets.

I think perhaps the House Republicans in Congress would have benefited more from this message than anyone else.

Their insistence on shutting down the government – coupled with their apparent willingness to allow our government to default on its debt – reveal just how reckless and dangerously dysfunctional the Republican Party has become.

Their actions show not only a contempt for government, but also an indifference to markets and the importance of stability. Taken together, the Republicans have shown the country just how profoundly misguided their understanding is of the role and responsibilities of elected officials in a representative Democracy.